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Annual Report

2001



Manufacturing pioneers since 1847.

GSW

"It's the man who thinks when others dream, who decides when others hesitate, who works when others wait, who succeeds when others fail." — John McClary



9 year warranty

Select the 9 year warranty for best performance.

1-800-594-2837

Our Customer Help Line offers:

- A 9 year 1/2 inch 200 psi limited lifetime warranty
- 24 hour emergency assistance
- 100% replacement guarantee
- No deductibles or co-payments
- No prorating
- No time limit on your warranty

10 features of the 9 year warranty include:

1. **Guarantee of leaks:** No failure under normal use and proper back flow protection
2. **Guarantee of replacement:** No prorating, no co-payments, no time limit
3. **Guarantee of labor:** No time limit
4. **Guarantee of performance:** No deductibles or co-payments
5. **Guarantee of replacement:** No prorating, no co-payments, no time limit
6. **Guarantee of labor:** No time limit
7. **Guarantee of performance:** No deductibles or co-payments
8. **Guarantee of replacement:** No prorating, no co-payments, no time limit
9. **Guarantee of labor:** No time limit
10. **Guarantee of performance:** No deductibles or co-payments



ELECTRIC

Model No.	Water Capacity (Gallons)	Dimensions (H x W x D)	Flow Rate (GPM)	Pressure (PSI)	Warranty (Years)	Price (USD)
9000-1000	1000	18" x 18" x 18"	1.0	200	9	\$199.99
9000-2000	2000	24" x 24" x 24"	2.0	200	9	\$299.99
9000-3000	3000	30" x 30" x 30"	3.0	200	9	\$399.99
9000-4000	4000	36" x 36" x 36"	4.0	200	9	\$499.99

*Warranty is 9 years, 100% replacement, no deductibles, no co-payments, no time limit.

Visit our web site: www.gswwater.com

Or please call 1-800-594-2837

For more than 150 years, GSW has responded to the challenges associated with the ongoing shifts in its competitive and customer environments. Few companies in North America can claim such longevity - reaching back three centuries to the time of this continent's pioneers. So it's with pride in this accomplishment, in the innovation and tenacity of all the GSW people who have come before, that we adopt our new positioning "GSW Manufacturing pioneers since 1847".

We believe strongly that the pioneering culture instilled in our company and in our people, will be the key ingredient for our ongoing success in the future - an increasingly non-linear future where only the companies that can continually reinvent, seek new direction and find new ways will thrive.

GSW has recognized the importance of building a solid foundation by focusing its efforts on long-term growth. Through ongoing cooperation amongst its stakeholders, GSW is harnessing its combined strengths to establish itself as a leading North American supplier





Financial Highlights

As at December 31

	2001	2000	1999	1998	1997
<i>(In thousands of dollars, except per share data)</i>	\$	\$	\$	\$	\$
Results For The Year					
Sales	222,484	211,096	227,127	212,656	195,856
(Loss) income from the following:					
Continuing manufacturing operations	(825)	151	9,058	496	8,333
Unusual items	(4,300)	—	—	—	—
Investment income	560	240	720	640	200
Income taxes recovery (provision)	1,973	482	(3,488)	(192)	(3,209)
Net (loss) income from continuing operations	(2,592)	873	6,290	944	5,324
Net income (loss) from discontinued operations	—	—	4,456	(1,070)	(4,186)
Net (loss) income	(2,592)	873	10,746	(126)	1,138
(Loss) earnings per share					
- continuing operations	(0.75)	0.24	1.73	0.27	1.47
- net (loss) earnings per share	(0.75)	0.24	2.96	(0.04)	0.31
Dividends paid per share	0.20	0.20	0.20	0.20	0.20

Financial Highlights At Year-End

Working capital	39,828	45,235	49,923	38,610	36,591
Current ratio	2.2 to 1.0	2.3 to 1.0	2.3 to 1.0	1.9 to 1.0	1.8 to 1.0
Capital assets at net book value	19,007	16,362	11,970	15,330	17,374
Total assets	107,409	111,722	115,750	112,411	114,722
Shareholders' equity	69,188	72,479	72,409	67,115	66,623
Number of common and subordinate voting shares outstanding at December 31	3,420	3,572	3,599	3,674	3,674

Head Office

20 Eglinton Avenue West, Suite 1903
P.O. Box 2047 Toronto, Ontario M4R 1K8
Tel: (416) 489-0640 Fax: (416) 489-1476

Corporate Office

2020 Winston Park Drive, Suite 100
Oakville, Ontario L6H 6X7
Tel: (905) 829-1197 Fax: (905) 829-0092

Website: www.gsw.ca

Share Transfer Agent: CIBC Mellon Trust

Bank: The Bank of Montreal

Auditors: Ernst & Young LLP

Annual Shareholders' Meeting

April 24, 2002 at The Westin Harbour Castle
Pier Rooms 7 & 8, 1 Harbour Square
Toronto, ON at 11:00 a.m.

Directors

John A. Barford
Stephen T. Bellringer¹
Richard M. Feldt¹
Andrew A. Ferrier
William C. Garriock¹
Edward A. Kukiel¹
Elizabeth J. Malcolm
Bruce H. Mitchell¹
Gary L. Moreau¹
Nancy G. Thomson¹

¹ Members of the Audit, Environmental & Pension Committee

¹ Members of the Management Resources, Compensation and Corporate Governance Committee

Officers

John A. Barford
Chairman
Andrew A. Ferrier
President & C.E.O.
Douglas G. Fixter
Sr. Vice President, Organizational & Business Development
Peter R. Martineau
Vice President & C.F.O.
Peter M. Sharpe
Vice President, Human Resources & Administration
Robert R. Cranston
Secretary



The Beatty Reaper

The Beatty reaper was popular with farmers who saw it outperform both Canadian and U.S. reapers in field competitions.

Report of the Board of Directors to Shareholders

2001 Operations

Net loss for 2001 was \$2.6 million or \$0.75 per common share compared to net income of \$873,000 (\$0.24 per common share) in 2000. Included in the 2001 results is a pre-tax charge of \$4.3 million, relating to certain one-off items. Our pre-tax loss before unusual items and investment income was \$825,000, compared to a profit of \$151,000 in 2000. The decline in profits from manufacturing operations was primarily due to weak margins in one of our major product lines and certain pre-production costs associated with new products.

During the year the Company received \$560,000 in dividends compared to \$240,000 in 2000 from its 20% equity interest in Camco Inc.

Business Review

2001 was an important year for GSW. Although the Company showed a net loss for the year, there were many steps taken in 2001 that contributed to a significant improvement in operating results by the second half of the year. A pre-tax profit before unusual charges and investment income of \$3.2 million in the second half of the year helped to partially offset the loss of \$4.0 million in the first half of 2001. The decisions that were taken in 2001 are leading to more competitive businesses and a return to profitability for all of GSW in 2002 and beyond.

Our commitment to customer service and top quality products in the Water Heating Company contributed to strong sales growth over the 2000 year. Cost reduction and productivity improvement were also key to better results.

Under the banner 'Project Trojan', the Company worked on over 100 specific projects designed to reduce waste and improve productivity. Many of these were completed in 2001, resulting in second half profits being over four times higher than in the first half. Further projects are now being implemented, adding momentum to the turnaround and optimism for 2002.

Product quality was also improved. By the end of 2001, the Company was beginning to enjoy significantly reduced warranty costs, a direct result of better manufacturing practices and product quality.

GSW has dedicated itself to a continuous improvement philosophy, and has adopted the mission to "Constantly Improve on Yesterday's Performance".

The Pump Company, Aermotor, had another tough year. Weak margins in several key product categories and poor manufacturing performance in the first quarter were the major contributors to our disappointing performance in 2001.

However, under new President Michael Scharing, a new Management Team was assembled and, with the addition of several experienced executives, a spirit of innovation and continuous improvement began yielding results by the second half of the year.

Aermotor saw significant reductions in supply chain costs, manufacturing costs, and inventories in the latter part of 2001. There were substantial improvements to financial controls as well. Importantly, the development of new products requested by our domestic and international customers got back on track by the end of the year.

There is still much work to be done to move Aermotor to the levels of profitability that GSW requires. However, we are pleased with the major strides that were taken in 2001, and are confident that we have the Management strength to leverage those improvements into the future.

The Thermoplastics business had a mixed year in 2001. On the positive side, we enjoyed record sales in our vinyl gutter business. Our vinyl railing business also showed strong sales growth over 2000.

However, we have been disappointed by the results of two of our new products. Our wood composite deck has had higher than anticipated manufacturing and raw material costs. Our polyethylene fence product, produced by a third party manufacturer for GSW, has also been more costly to produce and ship than anticipated.

GSW Thermoplastic Company's new President, Dennis Nykoliati, joined GSW in October and is a seasoned building products executive. Dennis has brought extensive industry experience and contacts to GSW, and we are optimistic that the business under Dennis' leadership will grow in profitability in 2002 and beyond.

At GSW, we are building on over 150 years of history. We have been pioneers in the manufacturing of consumer durable products since 1847, and we are now moving into a future where innovation and a spirit of continuous improvement will drive our businesses to grow and succeed on a North American scale.

The financial results in 2001 were unacceptable. However, as Management, we have been seeing the signs that the significant improvements put in place throughout 2001 have begun to show results. We are entering 2002 as a much more competitive Company, and have further plans for 2002 to streamline our operations, improve our businesses, and establish GSW on a path of steady growth in profitability and revenue.



Balance Sheet and Dividends

Net cash applied was \$32,000 compared to \$11,734,000 in 2000. During the year \$5.9 million was invested in the purchase of capital assets and \$1.6 million on the repurchase of share capital. Significant focus was directed towards improved working capital management and in this regard inventories were reduced by \$8.4 million or 25%. Year-end cash and short-term investments were \$19,384,000.

In November 2000, the Toronto Stock Exchange ("TSE") granted acceptance of the Company's application to undertake a normal course issuer bid for purchases of its Class A Common Shares and Class B Subordinate Voting Shares through the facilities of the TSE. During the year the Company purchased 30,900 and 121,000 Class A Common Shares and Class B Subordinate Voting Shares respectively for cash consideration of \$1,648,000. In July 2001, GSW Inc. continued its stated policy and paid its regular annual dividend of \$0.20 per share.



Beatty Bros. Limited, Board of Directors, 1929

*Beatty Bros. Limited joined
General Steel Wares Limited in 1964.*



Left to right: Andrew Ferrier, President & C.E.O.; John Barford, Chairman

Board of Directors and Management

In June 2001, Elizabeth J. Malcolm joined the GSW Board of Directors. We are delighted to have Beth's insight and welcome her to the Board.

Richard M. Feldt will not be standing for re-election as a Director. We thank Rick for his considerable contributions to the Board over the last six years. His counsel will be missed.

Brian Bacik, President of GSW Thermoplastics, left the Company in October. We thank Brian for his considerable contributions to GSW over his tenure.

On behalf of the Board,

J.A. Barford

J.A. Barford
Chairman

A.A. Ferrier

A.A. Ferrier
President & C.E.O.

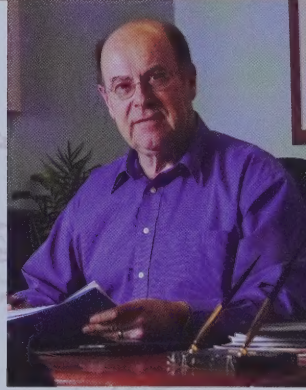


Michael Scharing,
President, Aermotor Pumps




Terry Parsons,
President, GSW Water Heating

Dennis Nykoliation,
President, GSW Thermoplastics



Left to right: Doug Fixter, Sr. Vice President, Organizational & Business Development
Peter Martineau, Vice President & C.F.O.
Peter Sharpe, Vice President, Human Resources & Administration



Review of GSW Operations and Product Lines

Water Heating Products

2001 was a year of significant progress for our water heating business. Increased sales, lower product costs and reduced expenses all combined to improve profitability substantially. Total sales increased as we made gains in our major markets in Canada while maintaining a toehold in the United States. Margins on products sold were improved largely through an aggressive effort to lower costs, reduce waste and improve productivity. Over 100 individual cost reduction projects were initiated, involving teams of employees and suppliers, and resulting in lower costs for materials, improved designs and greater output with fewer people. In the fourth quarter we concluded a new three-year labour agreement which includes an incentive clause that enables employees to be rewarded for continuing to identify and implement productivity improvements.

In addition, a strong focus on improvements to welding processes and corrective actions identified through our ISO 9001 quality program resulted in improved product quality and sharply reduced product warranty costs.

Early in the year we replaced our legacy computer system and are now live in a BaaN ERP environment. The new system is fully integrated and will support many improvements to business processes as we move forward. Period expense control and restructuring of management also contributed to the improved profit performance.

All of our employees made contributions to the improved results in 2001 and we thank

them for their efforts and dedication. Looking forward in this mature product category our mission is to "constantly improve on yesterday's performance" as the only way to ensure the continued growth and success of our business. In 2002, we will continue the relentless drive to lower costs, improve business systems, and grow our sales and profitability.

Thermoplastics Products

The Thermoplastics Company realized a strong year of market share gains led by its two core product categories.

The main retail gutter business experienced an unprecedented stellar rate of sales during the 4th quarter of the year, primarily due to wet weather conditions on the North American west coast. The surge in sales during that period drove sales up over 20% for the full year. The vinyl railing product line came into its own after three years in the market, with a 35% sales increase over the previous year. We will continue to build on these successes as we move forward into 2002.

The Thermoplastics Company fell short, however, in our new product launch objectives with the residential fence line, as well as with the new wood composite deck product.

Operationally, the Company positioned itself for future growth by continuing to work within the new ERP system that was introduced one year earlier, by maintaining its ISO 9001 accreditation and by effectively opening and operating a new 50,000 sq. ft. finished product warehouse facility.

Pump Products

2001 was a difficult year for Aermotor, our Pump Company. However, it also was a year of continuous improvement in most aspects of the business.



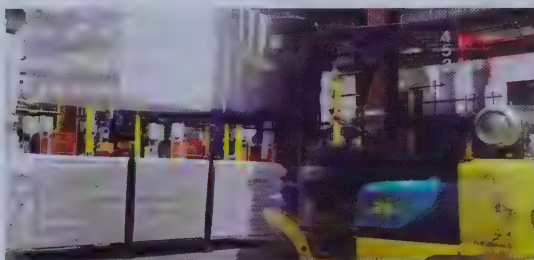
The early part of the year began with challenges in both our manufacturing operations as well as in new product development. Productivity was not tracking to our expectations, product component costs and inventory levels were too high, and new product launches had fallen behind schedule.

By mid-year new leadership in all key operating disciplines was installed with clear metrics established to benchmark monthly progress. The impact of this was felt company wide.

With clear targets, and strong fiscal controls established, agility in the overall operations of the Pump Company rose quickly resulting in better manpower utilization and productivity. Inventory levels were almost halved and, in collaboration with all vendors, component costs were compressed over previous years. The plant layout was re-designed to reduce material handling and enhance manpower utilization resulting in near perfect ship-on-time performance by year-end.

The new product development process was re-invigorated, and 2001 saw the launch of several product extensions and enhancements by year-end.

Results from a customer needs survey, conducted early in 2001, formed the basis of a new value proposition discussion, domestically and internationally, in both the Pro and Retail sectors. This dialogue establishes a foundation for both short as well as long-range



objectives and leverages the major improvements in 2001 well into the coming years.

The Pump Company still has more work to do. Although much progress has been made to strengthen the foundation of the business, shrink inventories, reduce manufacturing and period costs and develop new products, more must be done in these areas. As well, product mix and margins must be improved. The business is not yielding a satisfactory return to our shareholders. Management remains committed to taking the steps necessary to provide the appropriate returns.





Management's Responsibility for Financial Reporting

December 31, 2001 and 2000

The accompanying financial statements of GSW Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the financial statements.

GSW Inc. maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded. In addition, GSW Inc. has appropriate policies and procedures dealing with the protection of the

environment and safety in the workplace. Compliance reviews are conducted to provide reasonable assurance that they are effective.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit, Environmental & Pension Committee.

The Audit, Environmental & Pension Committee is appointed by the Board with all of its members being outside directors. The Committee meets periodically with management, as well as the external auditors, to discuss internal financial controls, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The Company's financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit, Environmental & Pension Committee.

A. A. Ferrier
President & C.E.O.

P. R. Martineau
Vice President & C.F.O.

Auditors' Report to the Shareholders of GSW Inc.

We have audited the consolidated balance sheets of GSW Inc. as at December 31, 2001 and 2000 and the consolidated statements of operations, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Kitchener, Canada

February 8, 2002.



Consolidated Balance Sheets

As at December 31

	2001	2000
(In thousands of dollars)	\$	\$
ASSETS		
Current		
Cash	4,384	4,416
Temporary investment [note 2]	15,000	15,000
Accounts receivable [note 3]	23,246	24,442
Inventories	24,168	32,610
Income taxes receivable	2,647	608
Prepaid expenses	1,821	1,469
Future income taxes [note 12]	2,287	1,990
Total current assets	73,553	80,535
Capital assets [note 4]	19,007	16,362
Future income taxes [note 12]	1,749	1,725
Total operating assets	94,309	98,622
Investment in Camco Inc. [note 5]	13,100	13,100
Total assets	107,409	111,722
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	33,725	35,300
Total current liabilities	33,725	35,300
Warranty provision	4,496	3,943
	38,221	39,243
Shareholders' equity		
Share capital [note 8]	2,114	2,208
Retained earnings	64,555	69,390
Foreign currency translation adjustment	2,519	881
Total shareholders' equity	69,188	72,479
Total liabilities and shareholders' equity	107,409	\$111,722

See accompanying notes.

On behalf of the Board,

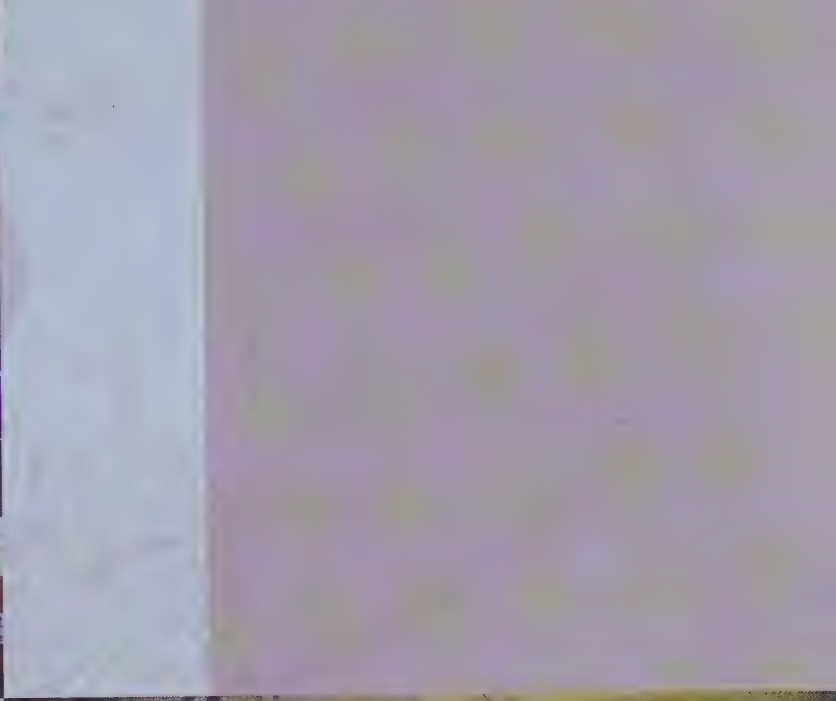


E.A. Kukiel
Director



W.C. Garriock
Director

GSW Inc.
(Incorporated under the laws of Canada)



Consolidated Statements of Retained Earnings

Years Ended December 31

	2001 \$	2000 \$
<i>(In thousands of dollars)</i>		
Retained earnings, beginning of year	69,390	69,523
Net (loss) income	(2,592)	873
Dividend of \$0.20 per share	(689)	(718)
Excess over stated value of shares purchased for cancellation <i>(note 8)</i>	(1,554)	(288)
Retained earnings, end of year	64,555	69,390

See accompanying notes.

Consolidated Statements of Operations

Years Ended December 31

	2001 \$	2000 \$
<i>(In thousands of dollars, except per share data)</i>		
SALES	222,484	211,096
Operating costs		
Cost of sales, selling and administrative expenses before the following items <i>(note 10)</i>	220,051	208,621
Amortization	3,490	3,069
Interest income, net	(232)	(745)
	223,309	210,945
(Loss) income from manufacturing operations before undernoted	(825)	151
Unusual items <i>(note 11)</i>	(4,300)	—
Investment income <i>(note 5)</i>	560	240
Income taxes recovery <i>(note 12)</i>	1,973	482
Net (loss) income	(2,592)	873
(Loss) earnings per common share	(0.75)	0.24

See accompanying notes.

Consolidated Statements of Cash Flows

Years Ended December 31

<i>(In thousands of dollars)</i>	2001 \$	2000 \$
OPERATING ACTIVITIES		
Net (loss) income	(2,592)	873
Items not involving cash:		
Amortization	3,490	3,069
Future income taxes	(76)	(1,349)
	822	2,593
Net change in non-cash working capital balances related to operations	7,356	(5,948)
Cash provided by (applied to) operating activities	8,178	(3,355)
INVESTING ACTIVITIES		
Purchase of capital assets	(5,873)	(7,356)
Cash (applied to) investing activities	(5,873)	(7,356)
FINANCING ACTIVITIES		
Dividends paid	(689)	(718)
Repurchase of share capital <i>[note 8]</i>	(1,648)	(305)
Cash (applied to) financing activities	(2,337)	(1,023)
Net cash (applied) during year	(32)	(11,734)
Cash and cash equivalents, beginning of year	19,416	31,150
Cash and cash equivalents, end of year	19,384	19,416
Cash and cash equivalents consists of:		
Cash	4,384	4,416
Temporary investment	15,000	15,000
	19,384	19,416

See accompanying notes.

Notes to Consolidated Financial Statements

Years Ended December 31, 2001 and 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in the preparation of the consolidated financial statements.

Principles of consolidation

The financial statements include the accounts of the Company and its subsidiaries on a consolidated basis. All significant inter-company balances have been eliminated on consolidation.

Inventories

Inventories are valued at the lower of cost and market. Cost is determined principally on a first-in, first-out basis. Cost includes material, labour and variable and fixed manufacturing overhead costs. Market value is net realizable value for finished goods and work-in-process, and replacement cost for raw materials.

Capital assets and amortization

Capital assets are stated at acquisition cost, including transportation and installation charges. Assets amortized on a declining basis include buildings at a rate of 5% and machinery and equipment at a 20% rate. Tooling costs for new products and computer systems are amortized on a straight-line basis over four and five years respectively. No amortization is taken on projects in process. Amortization commences when the asset is placed into regular production. Capital assets which are no longer in productive use are written down to net realizable value.

Investment in Camco Inc.

The investment in Camco Inc. is accounted for on a cost basis. Under the cost method, dividends are recorded as income and the carrying value of the investment is adjusted only when a decline in the market value is considered to be other than temporary.

Warranty provision

Anticipated costs related to product warranty are recorded in the year in which the product is sold.

Cash and temporary investments

Cash and temporary investments consists of balances with banks and investments in other commercial instruments with terms of three months or less. These instruments are carried at cost which approximates market value.

Pension costs and obligations

The Company contributes to a number of defined contribution pension plans for salary and hourly employees. Pension costs are charged to operations as contributions are made.

Foreign currency

The accounts of self-sustaining foreign operations are translated using the current rate method, whereby assets and liabilities are translated at the rate in effect at year-end and revenues and expenses at the average rate for the year. Unrealized translation gains and losses are deferred and included as a separate component of shareholders' equity.

Foreign currency transactions are translated into Canadian dollars at the rate of exchange at the date of the transaction. Foreign denominated monetary balances are translated using the rate of exchange in effect at the end of the year and any resulting gains or losses are included in income.

Income taxes

The Company follows the liability method of accounting for income taxes. Future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse [see note 12].

Earnings per common share

Basic earnings per share is calculated based on the weighted average number of shares outstanding during the year. Effective January 1, 2001, the Company has adopted The Canadian Institute of Chartered Accountants recommendations relating to the accounting for earnings per share. The recommendations,

which have been applied retroactively, have no impact on basic earnings per share in 2001 or amounts previously reported.

Measurement uncertainty

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the reported amount of revenues and expenses during the year. The reported amount of various financial statement balances are based on management's assessment of available facts and circumstances. Actual results could differ from these estimates.

In respect of the Company's compliance with current environmental regulations, management records a liability in these consolidated financial statements for estimated costs to be incurred. The liability, which is recorded as a charge to income, is established based on currently available facts, existing technology, presently enacted laws and regulations and the professional judgement of consultants. Although the estimated liability is not expected to change materially in the near term, such amount is subject to change based on new information which may become available.

Other significant policies

Research costs are expensed as incurred. Engineering and replacement tooling costs have been treated in a similar manner. Development costs are expensed as incurred unless a project meets the criteria under Canadian generally accepted accounting principles for deferral and amortization. At December 31, 2001, no development costs have been deferred.

2. TEMPORARY INVESTMENT

The temporary investment of \$15,000,000 consists of a note bearing interest at 2.22% per annum, which matures in January, 2002 [\$15,000,000 in 2000 at 5.73% maturing in January, 2001]. The carrying amount approximates fair value because of the short-term maturity of the instrument.

3. ACCOUNTS RECEIVABLE

While the Company sells its product to many customers, one customer represents 25% [14% in 2000] of the accounts receivable year-end balance.

4. CAPITAL ASSETS

Capital assets are comprised of the following:

2001 <i>[In thousands of dollars]</i>	Cost \$	Accumulated Amortization \$	Net Book Value \$
Land	464	—	464
Buildings	7,103	3,360	3,743
Machinery and equipment	46,909	34,715	12,194
Computer systems	4,674	2,731	1,943
Tooling	1,048	385	663
	60,198	41,191	19,007

2000 <i>[In thousands of dollars]</i>	Cost \$	Accumulated Amortization \$	Net Book Value \$
Land	452	—	452
Buildings	6,406	3,128	3,278
Machinery and equipment	38,959	30,879	8,080
Computer systems	4,421	1,945	2,476
Tooling	491	123	368
Projects in process	1,708	—	1,708
	52,437	36,075	16,362

5. CAMCO INC.

The Company owns 4,001,800 [20%] of the common shares of Camco Inc., with a value at December 31, 2001 of \$9,604,320 [2000: \$10,004,500], based on the market price quoted on The Toronto Stock Exchange. The realizable value of this investment may be more or less than that indicated by the market quotation less applicable income taxes.

A future income tax liability in the amount of \$1,085,000 [\$1,085,000 in 2000] has been provided in these consolidated financial statements in respect of the excess of the book value of the investment over its tax basis. During the year, the Company recorded dividend income in the amount of \$560,000 [\$240,000 in 2000].

6. AVAILABLE LINE OF CREDIT

At December 31, 2001, the Company has an available operating line of credit of \$30,000,000. There is no balance outstanding on this line of credit as at year-end. At the option of the Company, the operating line of credit may be drawn through advances [in Canadian or U.S. dollar equivalents] bearing interest at bank prime rate.

7. FINANCIAL INSTRUMENTS

The Company's accounts receivable relate primarily to product sales to a diverse range of customers in Canada and the United States. Credit limits, credit evaluation and account monitoring procedures are used to minimize risk of loss. The carrying value of the Company's financial instruments is not materially different from fair values.

8. SHARE CAPITAL

The authorized capital of the Company consists of an unlimited number of Class A common shares without nominal or par value, an unlimited number of Class B subordinate voting shares without nominal or par value, and an unlimited number of preference shares without nominal or par value.

The Class A shares have identical terms and features as the Class B shares, except that the Class A shares have 100 votes per share and the Class B shares have one vote per share. A holder of Class A shares may, at any time, convert them into an equal number of Class B shares.

The details of issued share capital are as follows:

	Number issued and outstanding	2001 Amount \$ [000's]	Number issued and outstanding	2000 Amount \$ [000's]
Class A common	750,553	442	781,453	460
Class B subordinate voting	2,669,368	1,672	2,790,368	1,748
	3,419,921	2,114	3,571,821	2,208

In May 1999, the Company was granted acceptance by The Toronto Stock Exchange ["TSE"] of its application to undertake a normal course issuer bid for purchases of its Class A common shares and Class B subordinate voting shares through the facilities of the TSE. In November, 2000, the Company renewed the normal course issuer bid for a twelve month period. During the year, the Company purchased 30,900 [8,100 in 2000] Class A common shares and 121,000 [19,500 in 2000] Class B subordinate voting shares for \$1,648,000 [\$305,000 in 2000] at an average purchase price of \$10.85 per share [\$11.05 in 2000]. All purchased shares have been cancelled. The excess of the purchase price over the stated value was \$1,554,000 [\$288,000 in 2000]. This amount has been recorded as a charge to retained earnings. In February 2000, 100 Class A common shares were converted on a one-for-one basis to Class B subordinate voting shares.

Executive stock option plan

On April 29, 1993, the shareholders approved an Executive stock option plan, pursuant to which a maximum aggregate of 180,000 Class B subordinate voting shares have been reserved for grant to key personnel. Under the plan, the option price may not be less than the fair market value of the stock at the time the options are granted. At December 31, 2001 and 2000, there were no options granted under this plan. The consideration that would be received by the Company on the exercise of any outstanding stock options would be credited to share capital.

9. EARNINGS PER COMMON SHARE

The following table sets forth the computation of earnings per share.

<i>[In thousands of dollars or units]</i>	2001 \$	2000 \$
Numerator for basic earnings per share available to common stockholders	(2,592)	873
Denominator for basic earnings per share - weighted average shares outstanding	3,448	3,596
(Loss) earnings per share	(0.75)	0.24

The Company has no securities which have a dilutive impact on earnings per share.

10. OPERATING COSTS

Operating costs include expenditures for research and development of \$2,746,000 in 2001 [2000 - \$2,326,000] and pension expense of \$790,000 in 2001 [2000 - \$730,000].

11. UNUSUAL ITEMS

During the year, the Company incurred costs of \$4,300,000 relating to discontinued products and other unusual charges pertaining to a defective purchased part of the water heater product line. The costs of discontinued products represent certain new product launches which have been terminated.

12. INCOME TAXES

The Company's recovery for income taxes is as follows:

<i>[In thousands of dollars]</i>	2001 \$	2000 \$
Income taxes recovery (provision) at combined Canadian federal and provincial rates of 42% [44% in 2000]	2,153	(65)
(Increase) decrease in income taxes recovery (provision) applicable to:		
Foreign tax rate differential	(77)	60
Manufacturing and processing deduction	(83)	23
Reduction in capital gains tax rate	—	540
Other items	(20)	(76)
Recovery for income taxes	1,973	482

Represented by:

Current income taxes	1,897	(867)
Future income taxes	76	1,349
	1,973	482

The tax effect of the temporary differences that give rise to future income tax assets and liabilities are comprised of the following:

<i>[In thousands of dollars]</i>	2001 \$	2000 \$
Future income tax assets:		
Warranty provision	2,880	2,800
Other liabilities not currently deductible for tax	2,685	2,600
Total future income tax assets	5,565	5,400
Future income tax liabilities:		
Capital assets	444	600
Investment in Camco Inc.	1,085	1,085
Total future income tax liabilities	1,529	1,685
Future income tax assets, net	4,036	3,715
Less: current portion of future income tax assets	2,287	1,990
Long-term future income tax assets	1,749	1,725

Income taxes paid during 2001 were \$240,000 [\$5,999,000 in 2000].

13. CONTINGENCIES

In the normal course of operations, the Company becomes involved in various claims and legal proceedings. While the final outcome with respect to such matters cannot be predicted with certainty, it is the opinion of management that adequate provisions have been made in the accounts and that the ultimate resolution of such contingencies will not have a material adverse effect on the Company's consolidated financial position or results of operations.

14. SEGMENTED INFORMATION

The Company's manufacturing operations consist of three operating segments, all of which manufacture products primarily for the residential building products industry. As these segments have similar economic and operating characteristics, they have been aggregated as one segment.

The following geographic information is presented based on the location of the capital assets, or in the case of sales, the location of the ultimate customer.

	Sales		Capital Assets	
	2001 \$	2000 \$	2001 \$	2000 \$
<i>[In thousands of dollars]</i>				
Canada	108,741	104,540	15,359	13,356
USA	113,743	106,556	3,648	3,006
	222,484	211,096	19,007	16,362

Sales to one customer, substantially all of which are in the US marketplace, represent 17% [16% in 2000] of the Company's revenues.

Building Products

GSW Thermoplastics
26 Lorena Street
Barrie, ON L4N 4P4
Tel: (705) 728-7141
Fax: (705) 739-0385

Management

Dennis Nykoliation
President

Mike Cook
Director of Operations

Bob East
Vice President, Sales

Alan Tsui
Vice President, Finance

Murray Stranks
Director of Marketing

Products

- Vinyl rain-carrying systems
- Vinyl railing systems
- Composite wood products

Water Heating Products

GSW Water Heating
599 Hill Street West
Fergus, ON N1M 2X1
Tel: (519) 843-1610
Fax: (519) 843-6121

Management

Terry Parsons
President

Dave Shaw
Vice President,
Manufacturing

Mike Paquette
Vice President, Finance

Pat Cushing
Vice President, Sales

Tom Martin
Vice President, U.S. Sales

Steve Ilott
Director of
Human Resources
& Administration

George McNeill
Director of Marketing

Products

- Electric, gas and oil-fired water heaters
- Storage vessels

Pump Products

Aermotor Pumps, Inc.
584 Commerce Road
Conway, Arkansas 72032
Tel: (501) 329-9811
Fax: (501) 329-9812

Management

Michael Scharing
President

Ed Gibson
Vice President, Operations

Phil Nardell
Vice President &
Controller

Jim Pflugrad
Vice President, Sales &
Marketing, Professional

Paul Henderson
Director of Sales, Retail

Chip Hunley
Director of Engineering

Products

- Water system pumps
- Sewage and effluent pumps
- Sump and utility pumps
- Commercial and irrigation pumps
- Tanks and accessories

Corporate Office

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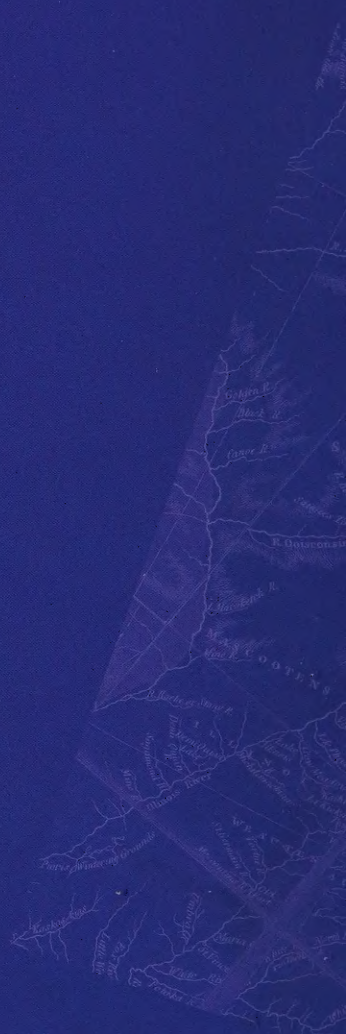
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Douglas Fixter
Sr. Vice President,
Organizational &
Business Development

Peter Martineau
Vice President & C.F.O.

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